

# 2013: TIME TO SEIZE THE OPPORTUNITY

GLOBAL REPORT – APRIL 2013



# AUDIT EXECUTIVE CENTER®

## TABLE OF CONTENTS

Introduction.....	1
Elevating Our Stature .....	4
Standing Our Ground .....	7
Doing More With More .....	10
Changing Our Game .....	13
Work To Do On Supporting The Tone At The Top.....	18

## DISCLAIMER

Copyright © 2013 by The Institute of Internal Auditors (IIA) located at 247 Maitland Ave., Altamonte Springs, FL, 32701, U.S.A. All rights reserved. Published in the United States of America. Except for the purposes intended by this publication, readers of this document may not reproduce, redistribute, display, rent, lend, resell, commercially exploit, or adapt the statistical and other data contained herein without the permission of The IIA.

## ABOUT THIS DOCUMENT

The information included in this report is general in nature and is not intended to address any particular individual, internal audit function, or organization. The objective of this document is to share information and other internal audit practices, trends, and issues. However, no individual, internal audit function, or organization should act on the information provided in this document without appropriate consultation or examination.

## ABOUT THE AUTHOR

The IIA would like to acknowledge Albert G. Holzinger for his invaluable contributions in preparing this report. Holzinger is president of the business writing and consulting firm Words to Deeds in Savannah, Ga.

## INTRODUCTION

The 1,700 internal auditors — 63 percent of whom are CAEs — in 111 countries who participated in The IIA Audit Executive Center's 2013 global Pulse of the Profession survey appear generally positive about their functional and administrative reporting relationships, their ability to focus audit's efforts on the most significant risks facing their organization, and the staff and budget resources at their disposal. "Overall, the profession seems to be set for a strong 2013 in every region of the world," says Richard Chambers, The Institute's global president and CEO.

"As in North America, the pace of global economic recovery in Latin America, Europe, Africa, and the Asia-Pacific region is slow and many governments have responded to governance scandals with increased regulatory activity," Chambers observes. "Despite this, the global survey results indicate that most CAEs feel well positioned and adequately resourced to add critical value to their organization." Particularly notable, he adds, are the survey's findings that around the globe:

- Increasing numbers of CAEs are reporting to levels within the organization that will enhance the organizational independence and stature of the internal audit function.
- More audit plans are prioritizing strategic risk and providing risk management assurance.
- CAEs are seeking the diversity in staff skills needed to tackle the dynamic challenges facing their organization.

"For internal audit globally, it appears that now is the time to seize the opportunities that are being afforded," Chambers says.

The IIA has a long-standing tradition of exploring emerging issues that could, and in some cases should, evolve the practice of internal auditing around the world. In keeping with this practice, this survey report explores not only the changing reporting lines and stature of CAEs in various regions but also ethics — notably the role CAEs might appropriately play in helping their organization strengthen its tone at the top and ethics-related practices such as developing and widely communicating values statements.

Doug Anderson, vice chair/professional practices of The IIA's Global Board of Directors and finance director at the multinational company Dow Chemical in Midland, Mich., explains that "CAEs cannot be bystanders where their organization's ethics are concerned. They have to be active players. They have to be champions." When CAEs observe that their organization's values are not being lived up to systemically, Anderson adds, "they have to become vocal participants in trying to rectify that. When it comes to upholding organizational ethics and values for internal audit, and especially for CAEs, it cannot be a spectator sport."

## SURVEY RESULTS AT-A-GLANCE

The IIA Audit Executive Center's 2013 global Pulse of the Profession survey yielded six headline findings:

1. A substantial majority of CAEs report functionally to the full board or its audit committee. This high-level reporting relationship is most prevalent in North America and Africa and least common in Latin America.
2. Similarly, a majority of CAEs from Latin America, Europe, Africa, and the Asia-Pacific region report administratively to the CEO. North America lags in this regard, with only about one-third of CAEs reporting to their organization's top-ranking executive. Conversely, more than a third of North American CAEs report administratively to the CFO, a practice far less common elsewhere.
3. Many CAEs worldwide appear to have more staff and, to an even greater extent, budget resources at their disposal in 2013 than in any other year of the post financial-crisis era.
4. The focus of audits at organizations worldwide largely aligns with the risks now facing organizations — most notably toward those arising from operational efficiency and effectiveness, information technology, and regulatory compliance. This year, there is a notable increase of focus on strategic risks and risk management assurance, especially in Latin America, Europe, and the Asia-Pacific region.
5. The staff skills most sought by CAEs correspond to shifts in their audit focus, led worldwide by analytical and critical thinking and communications abilities. The historically stereotypical technical skill of accounting is far down or does not even appear on global CAEs' lists of their top five desired skills.
6. Opportunities remain worldwide — some of them, arguably, with CAEs as the catalyst — to strengthen some organizations' tone at the top.

## SURVEY DEMOGRAPHICS

A record 1,700 internal auditors from 111 countries participated in The IIA Audit Executive Center's 2013 global Pulse of the Profession survey. Sixty-three percent of those respondents are the most senior audit executive at their organization with ultimate responsibility for — and the most knowledge about — the entire internal audit function. Therefore, this report is based on the responses of these chief audit executives, who hail from organizations that vary widely in location, type, size, and industry sector.

The plurality of respondent organizations (33 percent) are headquartered in North America. However, a substantial 29 percent are in Europe while 9 percent are in Africa, 17 percent are in Latin America, and 9 percent are in the Asia-Pacific region.

Publicly traded companies comprise the largest group of respondent organizations (33 percent). However, a substantial 30 percent are privately owned businesses and 23 percent are government entities.

Although many respondent organizations (27 percent) have annual revenue of between US \$1 billion and US \$10 billion and 10 percent have revenue of more than US \$10 billion annually, many are substantially smaller. In fact, 22 percent of respondent organizations have annual revenue of less than US \$50 million. Respondent organization audit staff sizes also vary widely from one to five auditors (49 percent) to more than 100 (3 percent), with 38 percent employing between two and five auditors.

By far the largest number of respondent organizations (20 percent) are engaged in financial services or real estate activity. Other leading participant organization industries of the more than 27 represented are manufacturing (9 percent), insurance (7 percent), energy (6 percent), and health care (5 percent).

## ELEVATING OUR STATURE

The IIA's globally applicable *International Standards for the Professional Practice of Internal Auditing (Standards)* require internal audit functions to be independent, free from conditions that threaten the ability of CAEs and their staffs to fulfill their professional responsibilities in an unbiased manner. The *Standards* say such independence can best be achieved through a dual CAE reporting relationship — functionally to the board of directors and administratively to senior management. In fact, since January 2009, The IIA's strongly recommended Practice Advisory 1110-1: Organizational Independence goes so far as to suggest that CAE "reporting...administratively to the chief executive officer facilitates organizational independence."

For much of the worldwide history of the profession, achieving these uppermost-level reporting relationships was more easily written in guidance than achieved in practice. But times seemingly have changed in most regions of the world.

The turn of the century brought with it a spate of global corporate governance scandals — for example, the frauds at Enron and WorldCom in the United States and at Cinar in Canada, Parmalat in Italy, and Satyam in India. And the failures of numerous large global financial institutions five years ago triggered a worldwide financial crisis that, in turn, sparked a recession from which the nations of some regions still are struggling to emerge. These and other systemic breakdowns and attempts to preclude further transgressions, in part, appear to be prompting organizations around the world to elevate the stature of their internal audit functions to the reporting levels prescribed by IIA *Standards* and strongly recommended by IIA guidance.

In fact, responses to the 2013 global Pulse of the Profession survey indicate this has become the prevalent reporting model worldwide. "Among the abundant good news in this survey is that the percentage of CAEs who report as high as possible within their organization — specifically to directors and to the CEO — appears to have increased substantially over the past 10 years," The IIA's Chambers observes. "And I believe the percentage will continue to grow in the coming years."

More specifically, Table 1 shows that almost two-thirds of CAEs at respondent organizations (66 percent) now report functionally to the full board or its audit committee. This high-level reporting relationship is most prevalent in Africa (79 percent) and North America (76 percent). This relationship is least common in Latin America, where just 57 percent of survey-participant CAEs report to the board or the audit committee functionally.

Yet there remain opportunities for improvement everywhere regarding CAE functional reporting. About one-fourth of CAE respondents (24 percent) — and a substantial-

"Among the abundant good news in this survey is that the percentage of CAEs who report as high as possible within their organization — specifically to directors and to the CEO — appears to have increased substantially over the past 10 years."

—Richard Chambers,  
President and CEO, The IIA



ly larger 33 percent from Latin America — indicate that they still report functionally to an executive inside the company — thus adversely impacting, at a bare minimum, the appearance of the role’s independence. Guillermo Zegarra, chief audit executive of Pacífico Grupo Asegurador, acknowledges the progress made stating that “today the internal audit profession is more aligned with the IPPF<sup>1</sup> than ever before, and the business side has heard the voice of the internal audit activity.” Zegarra also recognizes the need for continual improvement in this area as a “necessary change in order to fulfill our responsibilities and move forward with independence and objectivity.”

Table 1 indicates that most participating CAEs (43 percent) currently report administratively to the CEO. This is the majority administrative reporting relationship of CAE respondents from all regions except North America, where just 33 percent report administratively to their organization’s highest-ranking executive. In fact, 37 percent of North American CAE respondents report administratively to the CFO, a practice far less common in Africa (22 percent), Europe (13 percent), Latin America (12 percent), and the Asia-Pacific region (12 percent).

Table 1. Global Internal Audit Reporting Relationships

	Functional Reporting					
	All CAEs	Africa	Asia-Pacific	Europe	Latin America	North America
Full Board	12%	2%	7%	21%	20%	3%
Audit Committee	54%	77%	62%	41%	37%	73%
CEO	18%	11%	21%	22%	28%	10%
CFO	6%	3%	3%	6%	5%	6%
Other	10%	8%	8%	10%	11%	7%

	Administrative Reporting					
	All CAEs	Africa	Asia-Pacific	Europe	Latin America	North America
Full Board	8%	1%	10%	11%	16%	2%
Audit Committee	9%	6%	12%	8%	9%	8%
CEO	43%	56%	52%	50%	51%	33%
CFO	21%	22%	12%	13%	12%	37%
Other	18%	16%	15%	17%	12%	21%

Total may not equal 100 percent due to rounding.

<sup>1</sup> International Professional Practices Framework

“In the wake of the recent scandals and failures, leaders are increasingly starting to realize that they need to have a constant finger on the pulse of the organisation. There is, therefore, an increasing reliance on the assurance provided by internal audit,” says Dr. Claudelle von Eck, CEO of IIA–South Africa. “With the current pace of change as well as complexity leaders have to deal with, organisations cannot afford to allow long intervals between assurance reports” so they are assuming CAEs as a direct report.

Von Eck adds that “this is, of course, a wonderful opportunity for internal auditors to show their worth.” The flip side, she says, “is that if internal audit does not grab the opportunity and rise to the occasion, there is a great risk that the leadership will look for someone else to meet their assurance expectations.”

Like von Eck, Chambers and other global observers predict administrative reporting to the CEO will be ever more widely adopted as “best practice” over time, regardless of region or organization type. However, reporting administratively to the CEO — rather than the CFO or other appropriate C-suite executive — while positive overall can be a two-edged sword, observes Richard Anderson, clinical professor at DePaul University in Chicago and co-author of *Global Internal Audit Survey in Action*, one of five books emerging from The IIA Research Foundation’s 2010 worldwide Common Body of Knowledge study.

“In my experience, CEOs and CFOs handle internal audit differently in two critical aspects,” Anderson says. CEOs oftentimes take a much more strategic perspective, where CFOs are more accustomed to getting actively involved in fixing issues raised by internal audit, he says. “Accordingly, the CAE must have that kind of perspective when interacting with the CEO or risk getting marginalized,” according to Anderson.

On the other hand, he observes that “while CEOs expect people to keep them informed, they also expect and value people who bring them not only problems but also bring them solutions.” Therefore, Anderson concludes that CAEs who report to the CEO not only must surface the right issues at the right level, they also “have to bring strong, practical recommendations on how to fix any material problems and possibly take a leadership role in resolving them.”

Chambers maintains that “the higher up in the organizational structure a CAE reports, the more objective that individual can be in overseeing audits of tough areas of responsibility and the more independent the internal audit function becomes – at least from a third-party’s perspective.” And while “there is no magic answer to the question of whether administrative reporting to the CEO or CFO is most appropriate,” he adds that reporting to the chief executive can “enhance the credibility of the CAE and the internal audit function across the rest of the organization.”

“If internal audit does not grab the opportunity and rise to the occasion, there is a great risk that the leadership will look for someone else to meet their assurance expectations.”

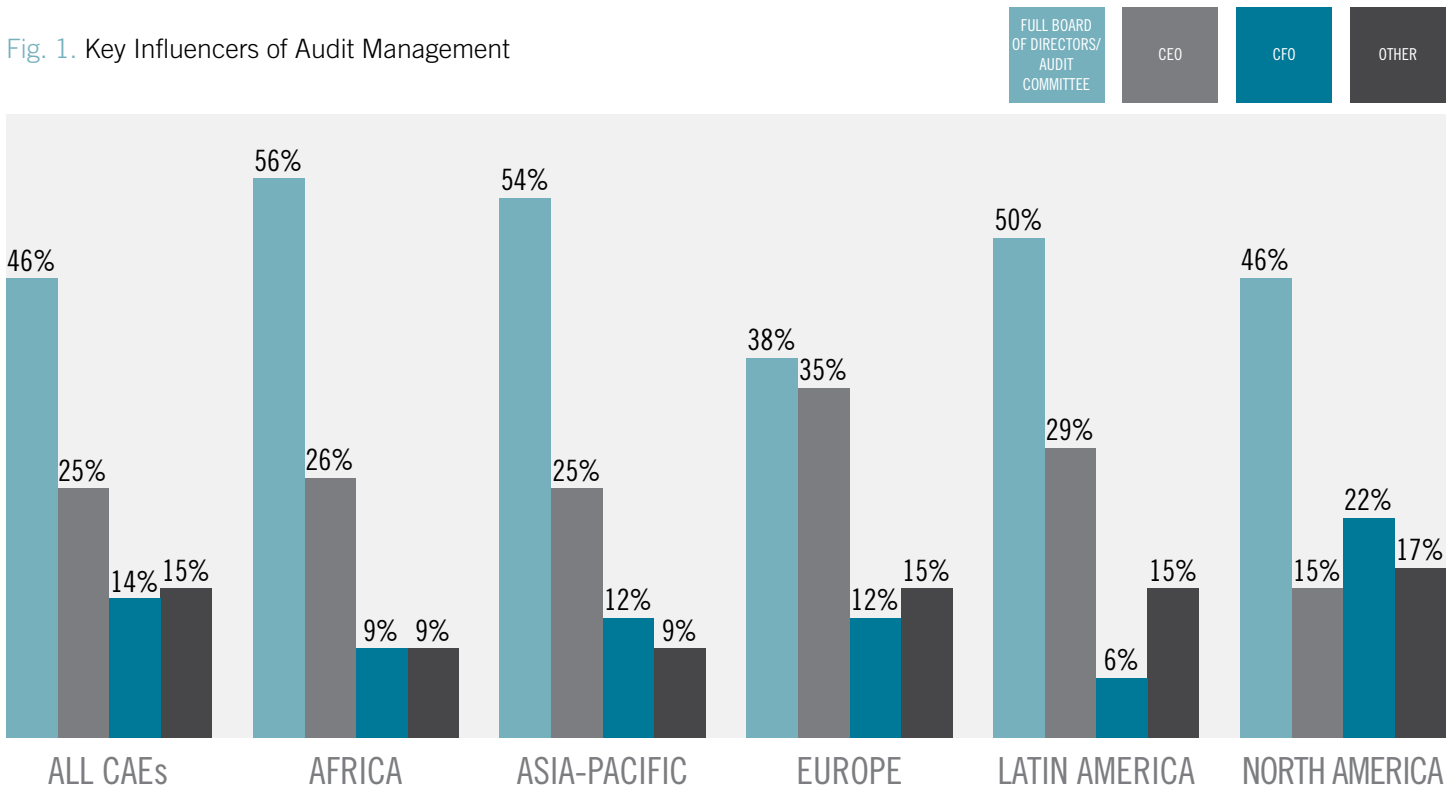
—Dr. Claudelle von Eck,  
CEO, IIA–South Africa



## STANDING OUR GROUND

In view of the large majority of CAE respondents to the 2013 global Pulse of the Profession survey who report functionally to the full board or audit committee and administratively to the CEO or the CFO, it is not surprising that the leading CAE responses to the question of who in the organization most influences how the internal audit function is managed are the full board/audit committee (46 percent), the CEO (25 percent), and the CFO (14 percent). However, Figure 1 shows there are some noteworthy regional differences. For example, just 15 percent of CAE respondents from North America — 10 percent fewer than the overall average — consider their CEO a key influence on the way they manage internal audit. Conversely, only 6 percent of CAE participants from Latin America — 8 percent fewer than the norm — consider their CFO a key influencer.

Fig. 1. Key Influencers of Audit Management

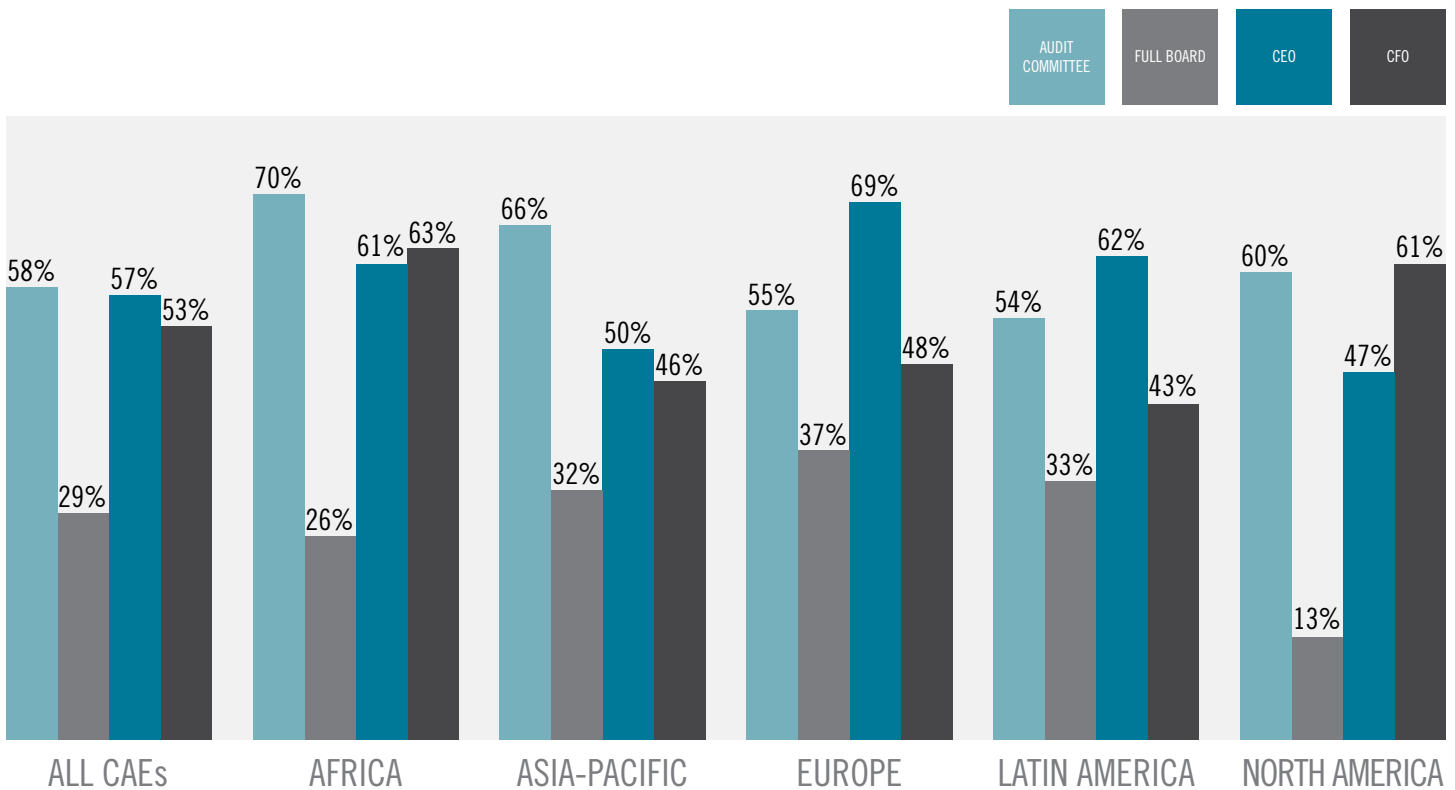


Total may not equal 100 percent due to rounding.

Similarly, when asked to indicate who provides a moderate or great amount of input into the content of their audit plan, the leading responses of CAEs are the full board/audit committee, the CEO, and the CFO. Other significant regional variations are shown in Figure 2.

**Fig. 2. Measure of Influence on Audit Plan**

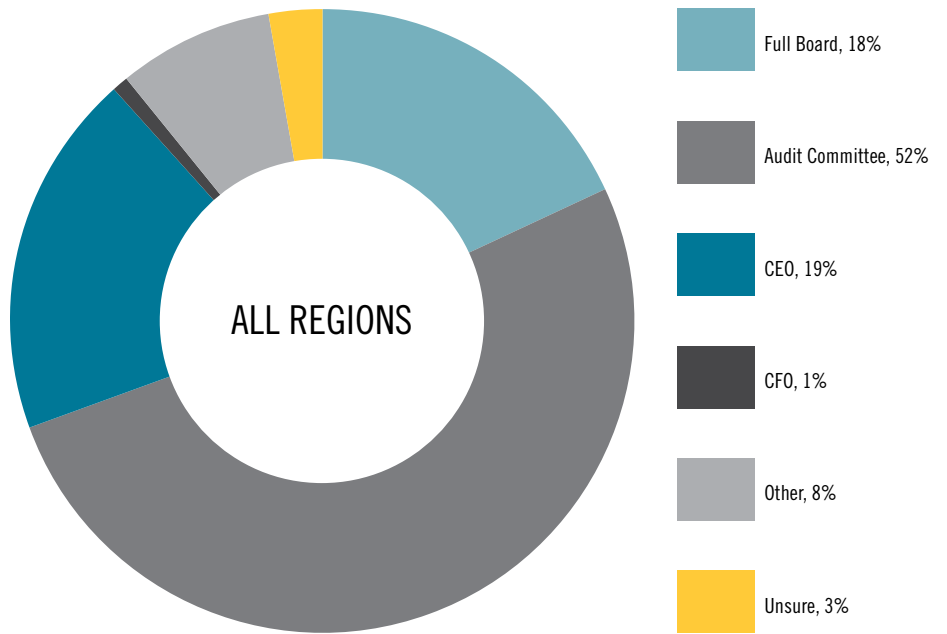
The survey results indicate the greatest influence on audit plans comes from the audit committee/full board, the CEO, or the CFO. The following graph shows the measure of CAE respondents who indicated that a moderate or great amount of input into the content of their audit plan came from each of these groups or individuals.



While the data concerning the reporting relationships of global CAE participants are positive overall, a significant number of CAE participants perceive their own reporting relationships as less than optimal. In fact, a noteworthy 22 percent of CAE respondents believe the objectivity and independence of their organization's internal audit function would be enhanced by a change in their reporting lines. As shown in Table 2, majorities of CAE respondents from all regions would prefer a reporting change to either the audit committee or the CEO. Similar to the findings in the North American report, almost no global CAE participants believe a switch to administrative reporting to the CFO would enhance internal audit's independence.

**Fig. 3. Desired Changes to Reporting Relationships**

A substantial 22 percent of all CAE respondents perceive internal audit's independence would be enhanced by changing the CAE's functional and/or administrative reporting relationship. Among these respondents, the preferred changes are represented in these charts.



Totals may not equal 100 percent due to rounding.

**Table 2. Desired Changes to Reporting Relationships by Region**

The following reflects the regional differences in preferred reporting relationships among the 22 percent of CAE respondents who think a change in the reporting relationship would enhance independence of the internal audit function.

	Africa	Asia-Pacific	Europe	Latin America	North America
Full Board of Directors	8%	15%	16%	23%	5%
Audit Committee	81%	67%	52%	61%	45%
CEO	0%	11%	18%	10%	30%
CFO	4%	0%	2%	0%	1%
Other	8%	4%	13%	3%	11%
Unsure	0%	4%	0%	3%	7%

Totals may not equal 100 percent due to rounding.

Despite the fact the trend in reporting relationships is favorable to enhancing the status of the profession, CAE responses to questions concerning undue influence remind that reporting to the CFO or even the CEO is not an independence panacea. The overwhelming majority of CAE participants (92 percent) — and similarly large majorities of CAE respondents from all regions — report they have not witnessed or experienced attempts to unduly influence the outcomes of audits. However, among the CAE respondents who have witnessed or experienced such interference, the leading sources — operations managers notwithstanding — are the CEO (12 percent) and the CFO (12 percent). Although the percentages varied somewhat, this survey finding was consistent across all regions.

## DOING MORE WITH MORE

CAE participants in the 2013 global Pulse of the Profession survey generally report good news about the resources available to internal audit this year. This development is all the more notable because many organizations continue to be highly cost conscious due to ongoing fiscal, regulatory, and other uncertainties worldwide.

As shown in Figure 4, the CAEs of 22 percent of participant organizations — about the same percentage as a year ago — increased their internal audit staff sizes going into 2013. This finding was relatively consistent for all regions save for Europe, where only 17 percent of CAE respondent organizations — 5 percent fewer than the overall average — expanded their audit staff sizes going into this year.

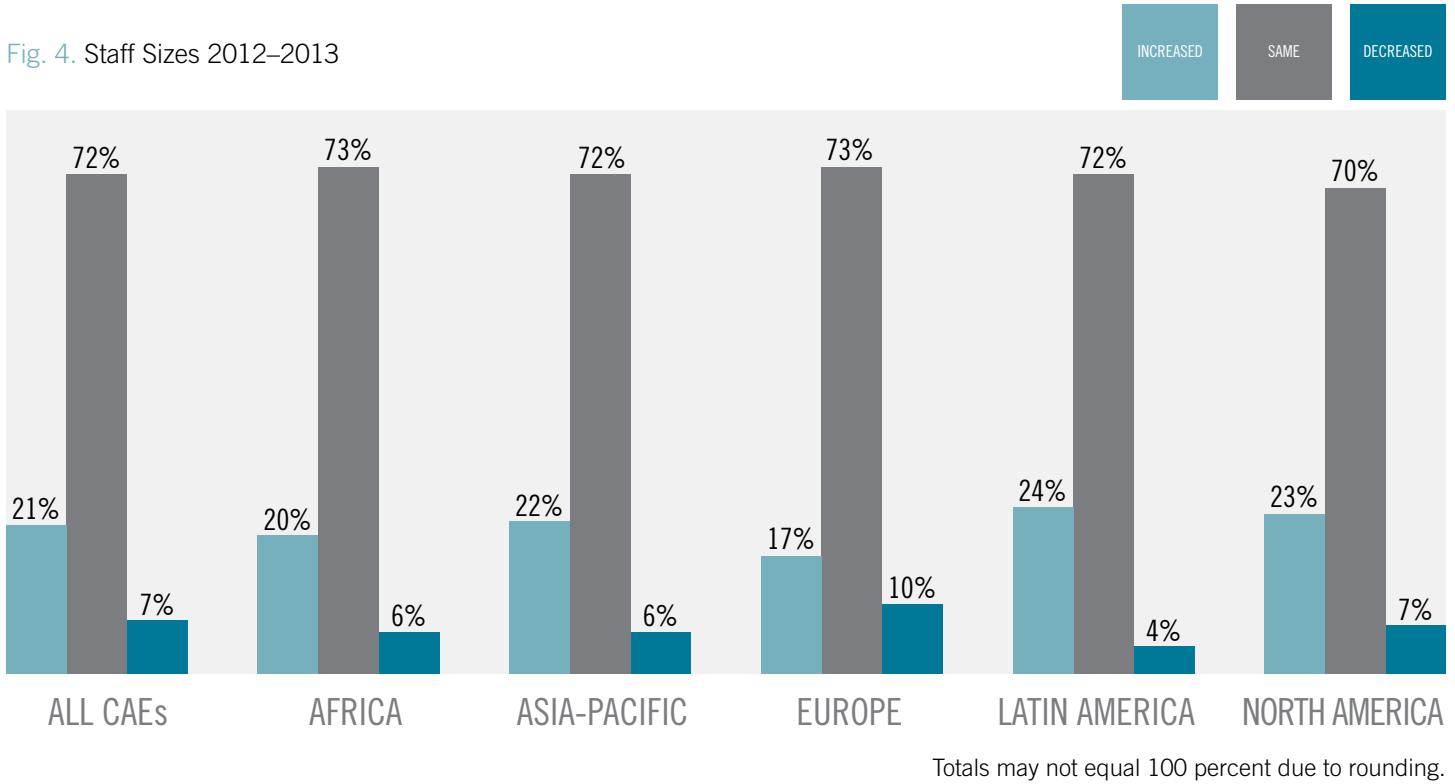
Conversely, only 9 percent of CAE respondent organizations — also about the same percentage as a year ago — decreased their internal audit headcount going into 2013. CAE respondent organizations from Latin America stood out in this regard, with just 4 percent cutting their audit headcount going into this year. “Whereas companies tend to reduce human resources in turbulent times, the size of internal audit departments shows an upward trend, which is a clear message from CEOs and boards that assurance over control and risk management is needed more than ever now,” says Javier Faleato, CEO of IIA–Spain.

Internal audit budgets follow a similar trend. Figure 5 shows that the financial resources available to the CAEs of a substantial one-third of respondent organizations — compared with 28 percent a year ago — increased for 2013. Interestingly, these data are substantially inconsistent across regions. For example, nearly half of CAE respondents from Africa and the Asia-Pacific regions (47 percent each) report budget increases this year. In contrast, just 19 percent of CAE respondents from Europe indicate their budget increased for 2013.

“You should determine your resource needs after you have a good sense of your audit plan. But almost never will you have all the skills and expertise you need to competently complete an audit plan every year with just the talent you have on your existing staff, as capable as they may be.”

—Paul Sobel,  
CAE, Georgia Pacific Corp.  
and Sr. Vice Chairman,  
The IIA Global Board of Directors

Fig. 4. Staff Sizes 2012–2013

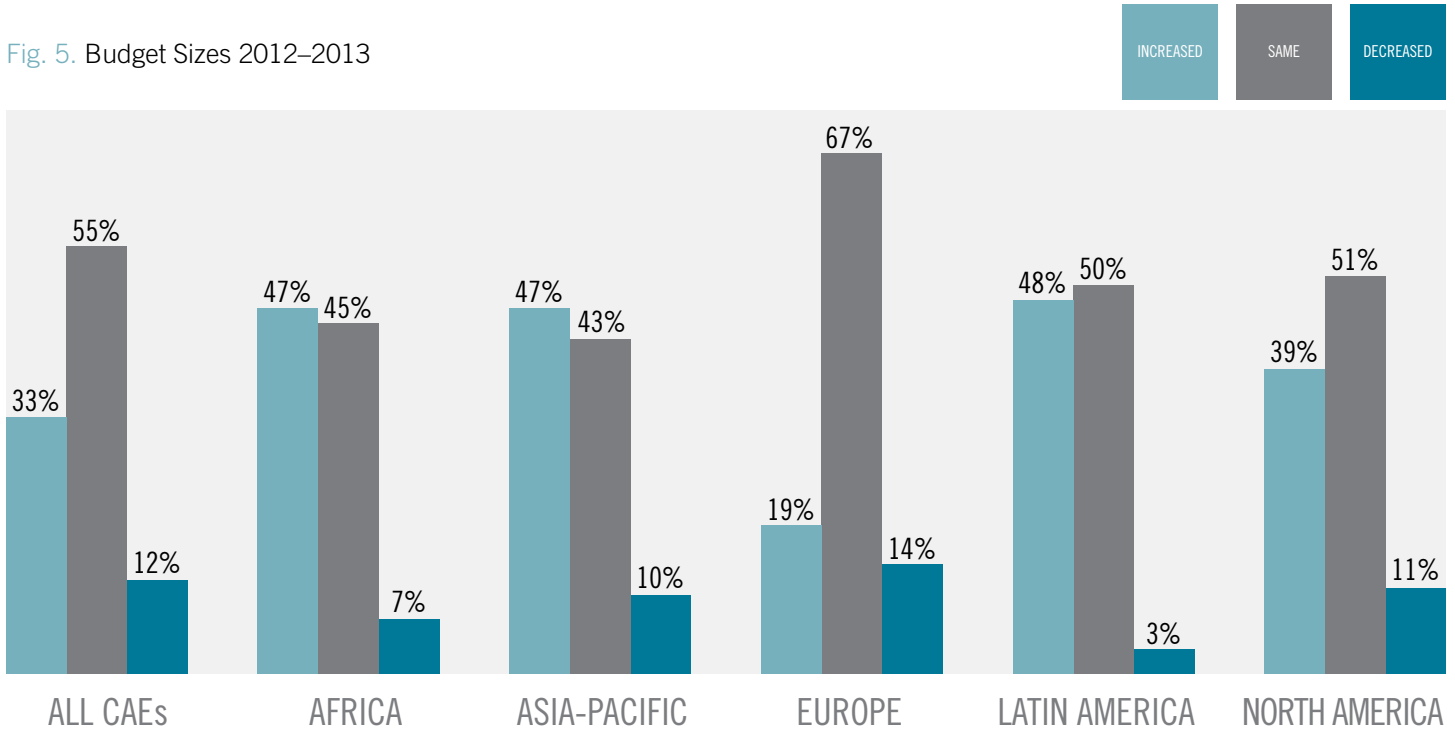


In contrast, just 12 percent of CAE survey participants, the same percentage as a year ago, indicate the overall internal audit budget for 2013 was cut by their organization. The percentage of CAE-reported budget reductions varies from just 3 percent in Latin America and 7 percent in Africa to 14 percent in Europe.

“Internal audit must have at its disposal sufficient and necessary resources to execute its annual plan,” says Ana Cristina Zambrano Preciado, president and CEO of IIA-Colombia. “This, in turn, helps internal audit to provide a higher level of coverage to help the organization achieve its business goals and objectives.”

The global data suggest that internal audit budget increases are outpacing headcount gains. Paul Sobel, senior vice chairman of The IIA Global Board of Directors and CAE at Georgia Pacific Corp. in Atlanta, Ga., shares insights on the North American data that rings equally true globally. He notes that historically most of this additional money is spent on enhanced training, salary and benefit increases, and more co-sourcing. As the business world gets evermore complex and the expectations of internal audit rightfully continue to grow, most CAEs recognize some portion of their audit plan must be co-sourced. “You should determine your resource needs after you have a good sense of your audit plan. But almost never will you have all the skills and

Fig. 5. Budget Sizes 2012–2013



Totals may not equal 100 percent due to rounding.

expertise you need to competently complete an audit plan every year with just the talent you have on your existing staff, as capable as they may be.”

Sobel perceives the increase in resources available to CAEs worldwide this year and last as an indication many organizations are scrambling to play “catch up” in the process of understanding and addressing the risks confronting them. This process, he observes, was often lacking during 2009–2011, a period when cost-cutting often was the principle concern of senior management of organizations around the globe



“It is very reassuring that CAEs are heeding the call to up their game. Audit committees have come to expect, if not flat out demand, that internal audit evaluate the organization’s strategic risk exposures as well as provide assurance on overall risk management effectiveness.”

—Richard Chambers,  
President and CEO, The IIA

## CHANGING OUR GAME

Successful CAEs, notes The IIA’s Chambers, demonstrate the time-tested ability to shift the focus and composition of internal audit activities when circumstances dictate. He describes these CAEs as having “the ability to anticipate, or ‘see around corners,’ and then adjust quickly to what will be needed.”

Key to mastering this skill, Chambers says, is developing what he dubs “relationship acumen.” A March 2011 white paper by Chambers and Charles Eldridge, Paula Park, and Ellen Williams, senior executives of the research arm of the global talent management firm Korn Ferry International, explores ways in which CAEs can develop this interpersonal savvy. In general, the paper says, relationship acumen manifests itself as six specific CAE traits:

- **POSITIVE INTENT:** a fair, independent, and objective approach to internal auditing that conveys to stakeholders that the CAE has the overall organization’s best interest at heart.
- **DIPLOMACY:** a direct, forthright communications style, political astuteness, and sensitivity to the organization’s culture and how management gets things done.
- **PRESCIENCE:** an ability to foresee risks that lie ahead for the organization, a trait that requires curiosity, an ability to look at situations with fresh eyes, and a willingness to question assumptions.
- **TRUSTWORTHINESS:** a demonstrated commitment to “walking the talk,” keeping confidences, operating with integrity, and being mindful of maintaining credibility.
- **LEADERSHIP:** an ability to set the appropriate tone not only for the internal audit staff but also for a wide range of others.
- **EMPATHY:** a knack for understanding and addressing each stakeholder’s point of view.

Following the global financial scandals early in this decade, many finance functions of organizations worldwide struggled for years to identify, document, and test – as required by national law or demanded by directors or other stakeholders – their organization’s key internal controls over financial reporting. Many CAEs added substantial value by applying the risk and control acumen of their staff and often contract resources to this high-visibility effort. During and immediately after the late-decade global recession, most boards and senior executives scrambled to cut costs without crippling their organization’s ability to earn precious revenue. And many CAEs and their staffs worldwide added value by lending their business-efficiency and effectiveness expertise to this, in some instances, do-or-die effort.

With the economy in slow recovery throughout most of the world, many organizations apparently are shifting their strategic emphasis from survival tactics to growth initiatives. A survey-based publication by the Big 4 public accountancy firm, KPMG International, entitled “Expectations of Risk Management Outpacing Capabilities: It’s Time for Action,” observes that many organizations worldwide now are experiencing a challenging “surge in business complexity and uncertainty” as they search for innovative ways to expand into new markets, faceoff against increasing global competition, and push the information-technology adoption envelope. The January 2013 publication warns this challenge is growing at a faster rate than most organizations’ managerial abilities to cope with it. And, in an example of “piling on,” this uncertainty is exacerbated by the cumulative effect of a global regulatory tsunami.

Table 3. Top Five Areas of Increased Audit Focus, 2012–2013

All CAEs	Africa	Asia-Pacific
Risk Management Effectiveness	Risk Management Effectiveness	Information Technology
Operational	Business Strategy	Risk Management Effectiveness
Information Technology	Information Technology	Compliance/Regulatory
Compliance/Regulatory	Corporate Governance	Business Strategy
Business Strategy	Operational	Cost Reduction/Containment
Europe	Latin America	North America
Business Strategy	Business Strategy	Information Technology
Risk Management Effectiveness	Information Technology	Compliance/Regulatory
Compliance/Regulatory	Fraud	Risk Management Effectiveness
Operational	Operational	Operational
Information Technology	Risk Management Effectiveness	Business Strategy

“To act as facilitator among different assurance functions, internal auditors need expertise in different areas such as communication and negotiation, among others.”

—Javier Faleato,  
CEO, IIA–Spain

“In the current global economic climate, auditors should envision their role as a business partner. This is key to closing the gap between their capacity to add value and the expectations of their organisation.”

—Farid Aractingi,  
VP, Renault Consulting and  
President, IIA–France

As would be expected, the 2013 global Pulse of the Profession survey suggests that CAEs worldwide are realigning the focus of audits planned for this year to coincide with their organization’s emerging opportunities and risks. More specifically, the top five areas in which respondent CAEs plan to increase audit staff focus during 2013, shown in rank order in Table 3, are risk management effectiveness, operations efficiency and effectiveness, all aspects of information technology, regulatory and other compliance, and business strategy execution. These focus areas are relatively consistent from region to region, although the order differs somewhat.

Chambers sees the planned focus increase on risk-management effectiveness and business strategy as especially positive developments. “It is very reassuring that CAEs are heeding the call to up their game. Audit committees have come to expect, if not flat out demand, that internal audit evaluate the organization’s strategic risk exposures as well as provide assurance on overall risk management effectiveness.” The question remains “whether some internal audit functions can recalibrate their staff talents and skills to meet the changing audit focus. Some survey results in recent years indicate CAEs are definitely trying.”

While the planned focus of individual audit engagements seems to be shifting significantly this year, the composition of respondent CAEs’ audit plans for 2013 overall is surprisingly unchanged from a year ago. More specifically, Figure 6 and Table 4 show that operational, regulatory/compliance, and financial audits comprise the largest per-

Fig. 6. Composition of Audit Plans 2013

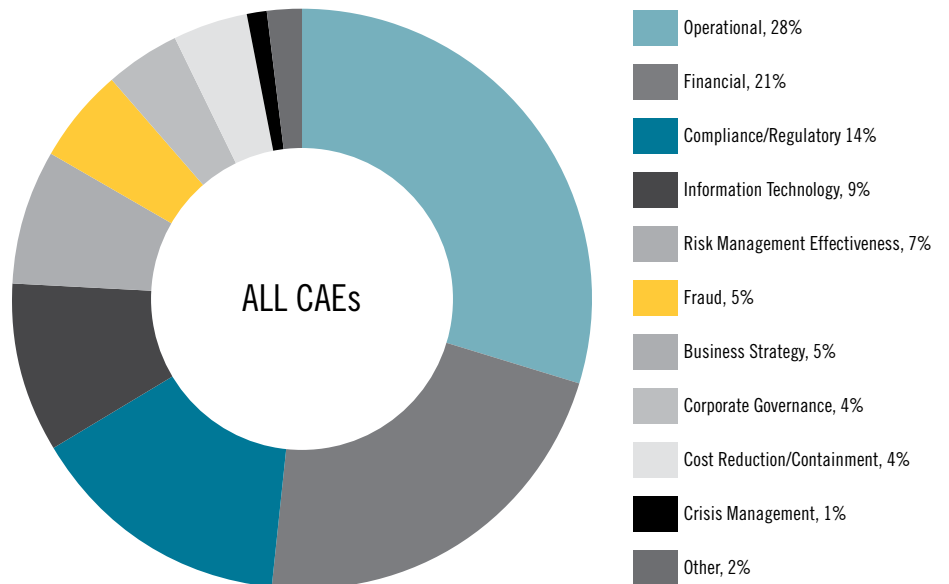


Table 4. Composition of Audit Plans by Region

	Africa	Asia-Pacific	Europe	Latin America	North America
Operational	27%	29%	31%	29%	27%
Compliance/ Regulatory	14%	12%	14%	13%	15%
Financial*	19%	19%	15%	18%	27%
Sarbanes-Oxley Testing/Support	1%	3%	2%	2%	13%
Information Technology	8%	9%	9%	10%	11%
Risk Management Effectiveness	9%	10%	9%	7%	6%
Fraud	6%	5%	5%	7%	4%
Business Strategy	6%	4%	6%	6%	3%
Corporate Governance	5%	5%	5%	3%	3%
Cost Reduction/ Containment	4%	4%	4%	4%	2%
Crisis Management	1%	3%	1%	1%	1%
Other	2%	1%	2%	3%	2%

Totals may not equal 100 percent due to rounding.

\*Financial percent is higher in North America due to the influence of Sarbanes-Oxley Testing and Support.

“Business, compliance, and regulatory risks continue to be the top priorities in many audit plans in Latin America. Consequently, internal audit should expand its focus on more value-added strategic efforts, which, in turn, will help us obtain a better understanding of the risk landscape in our organizations prior to providing assurance.”

—Ana Cristina Zambrano Preciado  
President and CEO, IIA–Colombia

centages of audits planned for 2013 by CAE respondents overall and from all regions — just as they did a year ago. “Business, compliance, and regulatory risks continue to be the top priorities in many audit plans in Latin America,” notes IIA–Colombia’s Zambrano Preciado. “Consequently, internal audit should expand its focus on more value-added strategic efforts, which, in turn, will help us obtain a better understanding of the risk landscape in our organizations prior to providing assurance.”

Since audit plans and individual audit engagements cannot be executed successfully unless CAEs have adequate staff or contract resources with corresponding skills, it follows that the competencies most sought by respondent CAEs in 2013, shown in Table 5, are compatible with the emphasis shifts noted above. In fact, as was the case a year ago, the top internal auditor candidate competency desired by respondent CAEs overall and from each region is analytical/critical thinking acumen, followed in most cases by communications ability.

“Internal auditors have strengthened their role as top executives within a company. Nowadays, no one doubts that technical skills are not enough for executives,” says IIA–Spain’s Faleato. “Combined assurance is one of the main challenges internal auditors face. To act as facilitator among different assurance functions, internal auditors need expertise in different areas such as communication and negotiation, among others.”

Furthermore, soft skills are seen as essential to closing the expectation gap. As noted by Farid Aractingi, vice president of Audit, Risk and Organisation at Renault, Chairman of Renault Consulting, president of IIA–France, “In the current global economic climate, auditors should envision their role as a business partner. This is key to closing the gap between their capacity to add value and the expectations of their organisation. To this end, they need to act as facilitators between the various stakeholders: auditees, managers, the C-suite and the audit committee. The information they provide should flow steadily within the company, be understood and lead to fast decision making, bold implementation, and disciplined follow-up. That’s why soft skills are so important for all internal auditors.”

Accounting, the historically stereotypical technical skill, is far down or does not even appear on global respondent CAEs’ lists of their top five desired skills now. “This signals a continued shift toward internal audit functions chock-full of diverse, multi-talented resources that understand their organization’s industry, can communicate with people at all levels in an insightful way, and are viewed as true business partners,” Chambers says.

Table 5. Five Most Sought Audit Skills

All CAEs	Africa	Asia-Pacific
Analytical/Critical Thinking	Analytical/Critical Thinking	Analytical/Critical Thinking
Communications Ability	Risk Management Assurance	Risk Management Assurance
Risk Management Assurance	General Information Technology	Communications Ability
General Information Technology	Communications Ability	Accounting
Data Mining and Analytics	Business Acumen	General Information Technology
Europe	Latin America	North America
Analytical/Critical Thinking	Analytical/Critical Thinking	Analytical/Critical Thinking
Communications Ability	Communications Ability	Communications Ability
Risk Management Assurance	Risk Management Assurance	Data Mining and Analytics
General Information Technology	General Information Technology	General Information Technology
Industry-specific Knowledge	Accounting – Data Mining and Analytics – Fraud Auditing (Tie)	Business Acumen

## WORK TO DO ON SUPPORTING THE TONE AT THE TOP

At first glance, the overall CAE responses to the ethics-related questions in the 2013 global Pulse of the Profession survey seem little cause for alarm. But under scrutiny, the data suggest opportunities remain — some of them, arguably, with CAEs themselves as the catalyst — to strengthen the tone at the top and the overall ethical climate of many organizations.

Reassuringly, a substantial 88 percent of CAE respondent organizations report they have in place a formal code of ethics and/or code of conduct. Leading the way in this regard are CAE respondent organizations in North America (96 percent), followed closely by those in the Asia-Pacific region (88 percent), Africa (88 percent), and Europe (84 percent). Respondent organizations in Latin America are lagging in this regard (74 percent).

Also encouraging is the 83 percent of CAE respondents who indicate their organization has developed formal values statements. Once more, the leaders in this regard are CAE respondent organizations in North America (90 percent), the Asia-Pacific



region (88 percent), Africa (88 percent), and Europe (84 percent) with those in Latin America trailing somewhat (70 percent). Such statements of values — “integrity” and “responsibility,” for example — are viewed by many as a critical component of a strong tone at the top of an organization as well as a formal expression of behaviors to which employees will be held accountable.

“A solid code of conduct is essential to a strong business,” says Brian Pauls, CAE of global electronics retailer Best Buy Co. Inc. in Minneapolis, Minn. “Even though we are in a time of transformation, at Best Buy internal audits remain a top priority. We are committed to ensuring we are adhering to the company’s ethics policies and values — which have been integrated into our code of conduct and is reflected in our required ethics training.”

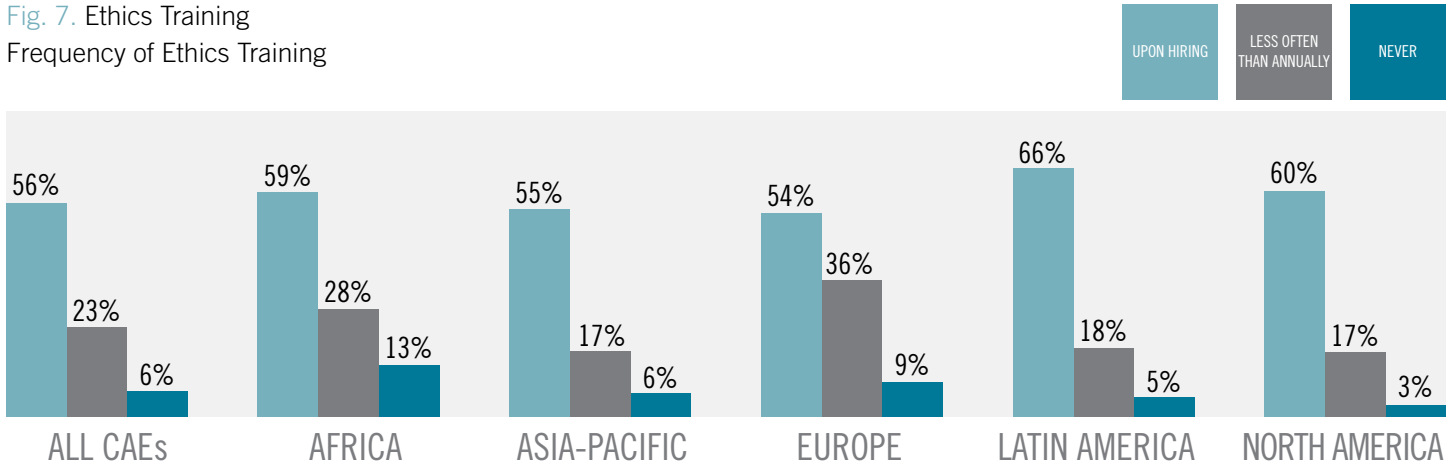
The data, however, shows disparity between theory and practice in some organizations. For example, 18 percent of CAE respondents believe their organization’s ethics/conduct code and value statement do not fully reflect the tone at the top. Interestingly, regional views of this matter vary widely. In North America, the Asia-Pacific region, and Latin America, the percentage of CAE respondents who perceive a gap between their organization’s written ethics aspirations and executive behavior are 13 percent, 14 percent, and 16 percent, respectively. But in Europe and Africa, the corresponding percentages are a higher 20 percent and 26 percent, respectively.

Moreover, as shown in Figure 7, only a slim majority (56 percent) of CAE respondent organizations and similar percentages of CAE respondent organizations from all regions conduct ethics training for new hires. Moreover, 29 percent of CAE respondent organizations — and a notable 45 percent from Europe and 41 percent from Africa — train existing employees less frequently than once a year. Overall and in all regions, classroom instruction and online programs are the most common ethics training methods.

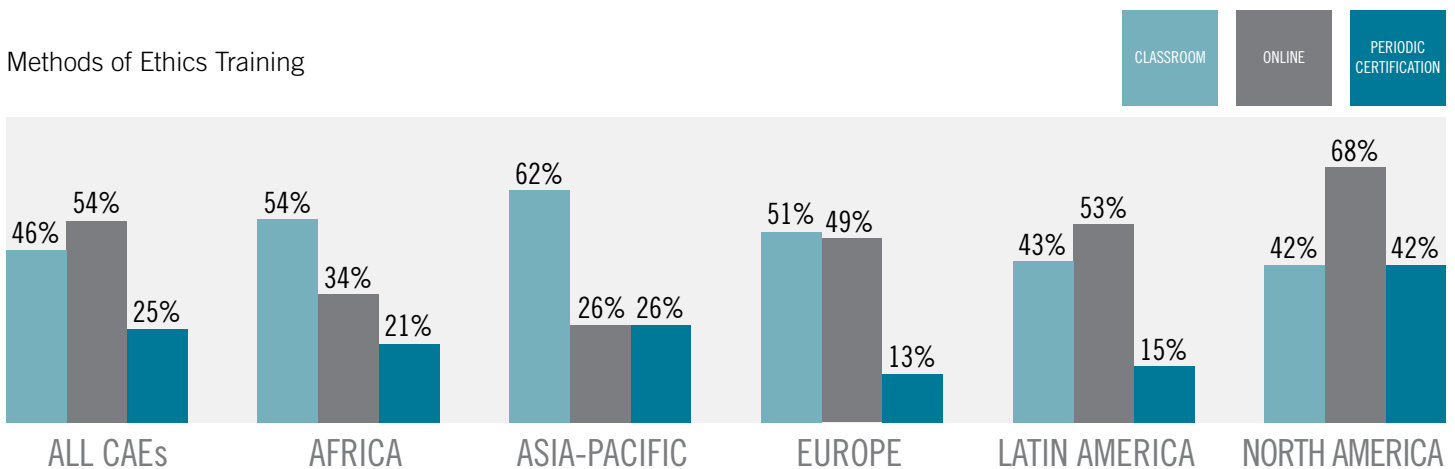
“Unless the leadership understands that the organisation has an obligation to be a responsible corporate citizen within the context of the society it operates in, ethics inevitably will not be a priority,” says IIA South Africa’s von Eck. “Couple this with a world in which we have lost the old values and have become increasingly more materialistic and growth-at-any-cost driven, and you have a recipe for disaster. Unless we feel a sense of responsibility in relation to our contribution to the greater good, there will remain a disconnect between the lip service we pay to ethics and our actual action.”

How does a CAE support their organization’s efforts to enhance the tone at the top and cultivate an ethical workforce? For the CAE, the path of least resistance is to simply sit back and write up adverse findings following conduct mistakes, but there

Fig. 7. Ethics Training  
Frequency of Ethics Training



Methods of Ethics Training



is a greater obligation to the organization. This obligation is for CAEs to get involved where ethics are concerned and to become vocal participants rectifying areas that are not in keeping with their organization’s values.

So if a CAE observes an individual getting ready to undertake, or having already undertaken, an act that is questionable from an ethics standpoint, the CAE should be willing to speak up. Beyond that, CAEs should assist senior management, the audit committee, and the full board with setting a strong tone from the top, implementing frequent and effective employee training, and ensuring strict organization-wide adherence to the code of ethics and value statement. Summarily, the role of the CAE in these efforts is, as described by Dow Chemical finance executive Doug Anderson, “to be an integral part of the conscience of the organization.”



The  
*Pulse*  
of the  
*Profession*™



*A*UDIT *E*XECUTIVE  
— CENTER® —

GLOBAL HEADQUARTERS  
247 Maitland Avenue  
Altamonte Springs, FL 32701-4201  
[www.theiia.org](http://www.theiia.org)